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Agenda Item 6a

May 17, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Alternate Retirement Program (ARP) Update
- II. PROGRAM:** Customer Services and Support
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

The purpose of this agenda item is to provide the members of the committee with current information on the Alternate Retirement Program (ARP). This item provides a background of the program and recent statistical data regarding elections.

Background

Senate Bill 1105 established the ARP for state miscellaneous and industrial employees effective August 11, 2004 and gives the Department of Personnel Administration (DPA) responsibility for administering the program. The law created a retirement savings program, in lieu of retirement service credit and contributions under CalPERS. Withheld contributions are deposited monthly into a 401(a) account administered by the DPA Savings Plus Program (SPP).

State miscellaneous and industrial employees who are hired and first become members of CalPERS on or after August 11, 2004 are placed in the ARP for a 24-month period following their date of hire. While the ARP participant does not receive CalPERS service credit for the calculation of retirement benefits during the 24-month period, CalPERS treats ARP service as state service for retirement, pre-retirement death, dental, and health vesting purposes. The ARP participant is considered a CalPERS member and eligible to receive certain "member" benefits such as health and dental insurance.

Effective the first day of the 25th month following his/her employment date, the ARP participant begins contributing to CalPERS as a State First Tier member, and begins earning service credit prospectively (refer to Attachment A). Beginning on their 47th month of employment and extending through the last day of their 49th month, these members have the opportunity to make an election regarding their ARP funds on deposit with DPA. The member has three options:

- Option 1: Transfer the entire balance of their ARP 401(a) account to CalPERS and receive service credit for their state service worked as an ARP member;
- Option 2: Request a lump sum distribution of the entire balance of their ARP 401(a) account;
- Option 3: Rollover their ARP funds to a Savings Plus 401(k) account with DPA.

The member has a three-month election period (months 47 - 49 of employment) to select one of the three options. If the member does not make a selection during the election period, their funds will either be transferred by default to a Savings Plus 401(k) account with DPA (Option #3), or, if they are no longer working for the state and do not have a Savings Plus 401(k) account with existing assets, their funds will remain in the 401(a) ARP account and the member will be charged a small administration fee.

Member Notification

Members currently receive several mailings from DPA and CalPERS, to ensure that they are informed of their election period and their various options. DPA sends each member a postcard during their 45th month of employment, alerting them of their election period. CalPERS follows this on the 46th month with a letter to each member which explains the three options in detail. At the end of the 46th month, DPA sends the member a Payout Selection kit and the election form. After selecting their option, members then mail their completed forms to the CalPERS Customer Account Services Division (CASD), formerly Member Services Division. CASD staff image the documents and then forwards them to DPA and DPA's third party administrator, Nationwide Retirement Solutions (NRS).

Statistical Data

The CASD collects statistical data by groups, according to election period dates. For example, Group 1 consists of 143 eligible ARP participants and includes those members whose three-month election period began July 1, 2008 and ended September 30, 2008. Group 2 consists of 321 eligible ARP participants and includes those whose election period began August 1, 2008 and ended October 31, 2008, and so on. To-date, we have compiled the data for 29 groups.

The statistics shown on Attachment B indicate that approximately 55% of ARP members actually submitted their ARP election forms during their three-month

election period (selecting Option #1, #2, or #3) while 45% did not submit an election. As previously stated, the ARP funds for those members who do not submit election forms remain in a SPP account with DPA.

As indicated on Attachment B in Table #1, an average of 45% of eligible participants elected to transfer their funds to CalPERS and receive service credit (Option #1), 9% elected to receive a distribution of their ARP account (Option #2), and 1% elected to leave their funds in a DPA SPP account (Option #3). Attachment B, Chart #1 is a graphical representation of the data contained in Table #1.

When focusing solely on those members who did submit their ARP election forms, the data shows that the majority opted to transfer their funds to CalPERS and receive the corresponding service credit (Option #1). As shown on Attachment C in Table #2, 82% of ARP members who made an election chose Option #1. Only 16% of those who made an election chose to receive a distribution of their ARP funds, while 2% opted to leave their funds in a DPA SPP account.

The Pie Chart on the top portion of Attachment D shows the distribution of elections by option type through January 31, 2011. It also provides additional detail pertaining to election defaults. For example, "Default - Other" is a very small group (less than 1% of total participants) and represents those members who submitted election forms that were late or incomplete, or, members who have passed away. "Default - Separated" represents those ARP members who left active employment with the State prior to reaching the 3-month election period. Although they still would have received an election packet, it is possible that many of them disregarded the material they received in the mail without reading it since they were no longer employed with the State. We do not have current contact information for many of these former participants.

The third group of defaults, "Default - Active", represents those ARP members who are still working for the State and were eligible to submit an election form, but did not. Although several different theories have been discussed by staff as to why members in this particular default group did not submit an election form, we are unable to determine the exact reasons.

Tables #3 and #4 of Attachment D show the distribution of elections, by age group, by option type. As Table #4 indicates, **30%** of ARP participants in the 20 – 29 age group selected Option #1. In comparison, **56% - 58%** of participants in the 50 and over age groups selected Option #1.

CASD continues to meet with DPA and union representatives to ensure that ARP participants receive and understand the information necessary to make an informed decision. CASD continues to monitor the responses to our on-line ARP survey to determine if further adjustments can be made to improve the ARP process for our members. We have also asked that the union representatives encourage their members to take our online ARP survey by including the link in global emails and various newsletters in hopes of increasing feedback from ARP members that have gone through the ARP process.

V. STRATEGIC PLAN:

This program is consistent with the following Strategic Goals:

- VI. Administer pension benefit services in a customer service-oriented and cost-effective manner.
- VII. Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement future.

VI. RESULTS/COSTS:

N/A

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Attachments